

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

MINTEL LEARNING TECHNOLOGY,
INC.,

Plaintiff,

v.

BEIJING KAIDI EDUCATION &
TECHNOLOGY DEVELOPMENT CO.,
LTD dba KAIDISOFT, et al.,

Defendants.

No. C 06-7541 PJH

**ORDER GRANTING MOTION TO
DISMISS FOR FAILURE TO STATE A
CLAIM; ORDER DENYING MOTION TO
DISMISS FOR FAILURE TO JOIN AN
INDISPENSABLE PARTY**

Before the court is the motion of defendants Yan Liu and Jun Zhang for an order dismissing the claims against them pursuant to Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim, and pursuant to Federal Rule of Civil Procedure 12(b)(7) for failure to join an indispensable party.¹ Having read the parties' papers and carefully considered their arguments and the relevant legal authority, and good cause appearing, the court hereby GRANTS the motion to dismiss for failure to state a claim, and DENIES the motion to dismiss for failure to join an indispensable party.

BACKGROUND

Plaintiff Mintel Learning Technology, Inc. ("Mintel") is a California company that

¹ In an order issued on May 18, 2007, the court vacated the hearing on the present motion.

1 develops and markets products and services that facilitate the process of learning and
2 memory. Mintel's products are used by students to prepare for standardized tests such as
3 the SAT, the TOEFL, the GRE, and to study English as a second language.

4 According to Mintel, its products are based on technology developed by Ningyuan
5 Wayne Yang, Ph.D., the former President and Chief Executive Officer of Mintel. The
6 technology centers on a set of software modules referred to as the "memory engine," which
7 utilize various forms of user-machine interaction to facilitate the learning/memory process.

8 Dr. Yang co-founded Mintel with James Liu, who served as Mintel's Chief Executive
9 Officer from the company's inception in 2001 until he resigned from the board of directors
10 on March 19, 2005. While he was CEO of Mintel, James Liu allegedly secretly registered,
11 under his own name with the United States Patent and Trademark Office, the trademarks
12 for "Mintel Learning Technology, Inc." and "Memory Engine." He also allegedly copied
13 Mintel's source code and took it to China to develop a competing product.

14 In 2002, Mintel entered into a "Collaboration Agreement" with defendant Beijing
15 Kaidi Education & Technology Development Co. dba Kaidisoft ("Kaidi"), a Chinese
16 company based in Beijing. Defendant Yalin Lin is the founder and president of Kaidi, and
17 allegedly resides in China and California. The collaboration between the two companies
18 was allegedly initiated by James Liu and defendants Yan Liu and Jun Zhang, Yalin Lin's
19 daughter and son-in-law, both of whom reside in Oakland, California.

20 Under the Collaboration Agreement, Kaidi was authorized to distribute Mintel's
21 products in China. Mintel asserts that James Liu subsequently secretly amended the
22 Collaboration Agreement in favor of Kaidi and to the detriment of Mintel. The amendment
23 was ultimately rejected by the Mintel board.

24 In March 2004, James Liu registered his own company, US Ivy Learning Networks,
25 Inc. James Liu also allegedly authorized Kaidi to obtain a trademark for "Mintel Memory
26 Easy" in Kaidi's name. Mintel asserts that Kaidi then began falsely representing itself to the
27 general public as the exclusive distributor of Mintel products in China.

28 In June 2004, Mintel sued James Liu for breach of fiduciary duty and fraud in the

1 Superior Court of California, County of Alameda (Case No. HG04159905). On July 20,
2 2004, pursuant to stipulation, the Superior Court entered a preliminary injunction, requiring
3 James Liu to return or destroy Mintel's source code, and to return all Mintel's property,
4 including funds in bank accounts and trademarks; and prohibiting him from further
5 breaching his fiduciary duty and duty of loyalty to Mintel, and from further utilizing Mintel's
6 source code.²

7 On July 9, 2004, Mintel terminated the Collaboration Agreement. Mintel asserts that
8 Kaidi continued to market Mintel's products after the termination of the Collaboration
9 Agreement, and continued to falsely claim that it was Mintel's exclusive distributor in China.
10 Mintel also alleges that Kaidi has continued its collaboration with James Liu, featuring him
11 in numerous advertisements and television commercials for illegal sales of Mintel products.

12 Mintel filed this action on December 8, 2006, against Kaidi and Yalin Lin, alleging
13 breach of contract, misappropriation of trade secrets, false advertising, copyright
14 infringement, civil conspiracy, and unfair competition. On March 16, 2007, Mintel amended
15 the complaint, to add Yan Liu and Jun Zhang as defendants.

16 Yan Liu and Jun Zhang now seek an order dismissing all claims asserted against
17 them in the first amended complaint ("FAC"), for failure to state a claim and for failure to
18 join an indispensable party.

19 DISCUSSION

20 A. Motion to Dismiss for Failure to State a Claim

21 A motion to dismiss under Rule 12(b)(6) tests for the legal sufficiency of the claims
22 alleged in the complaint. Ileto v. Glock, Inc., 349 F.3d 1191, 1199-1200 (9th Cir. 2003).
23 Review is limited to the contents of the complaint. Allarcom Pay Television, Ltd. v. Gen.
24

25 ² On May 24, 2005, Mintel and James Liu entered into a final settlement and Mintel
26 dismissed the state court action. Pursuant to the settlement agreement, Liu was prohibited
27 from using or disclosing Mintel's trade secrets, and was also barred from competing with Mintel
28 in the United States for two years, starting on May 18, 2005. On May 18, 2006, Mintel filed suit
against Liu and other defendants, alleging that Liu had breached the settlement agreement.
See Mintel Learning Tech., Inc. v. US Ivy Learning Networks, Inc., et al., No. C-06-4994 JW
(N.D. Cal.) (Jt. Case Mgmt Conf. Statement, filed Nov. 17, 2006, at 1-2).

1 Instrument Corp., 69 F.3d 381, 385 (9th Cir. 1995). To survive a motion to dismiss for
2 failure to state a claim, a complaint generally must satisfy only the minimal notice pleading
3 requirements of Federal Rule of Civil Procedure 8. Rule 8(a)(2) requires only that the
4 complaint include a “short and plain statement of the claim showing that the pleader is
5 entitled to relief.” Fed. R. Civ. P. 8(a)(2).

6 Specific facts are unnecessary – the statement need only give the defendant “fair
7 notice of the claim and the grounds upon which it rests.” Erickson v. Pardus, 127 S.Ct.
8 2197, 2200 (2007) (citing Bell Atlantic Corp. v. Twombly, 127 S.Ct. 1955, 1964-65 (2007)).
9 All allegations of material fact are taken as true. Erickson, 127 S.Ct. at 2200. However, a
10 plaintiff’s obligation to provide the grounds of his entitlement to relief “requires more than
11 labels and conclusions, and a formulaic recitation of the elements of a cause of action will
12 not do.” Bell Atlantic, 127 S.Ct. at 1964-65 (citations and quotations omitted). Rather, the
13 allegations in the complaint “must be enough to raise a right to relief above the speculative
14 level.” Id. at 1965. A motion to dismiss should be granted if the complaint does not proffer
15 enough facts to state a claim for relief that is plausible on its face. See id. at 1966-67.

16 Yan Liu and Jun Zhang argue that all claims asserted against them should be
17 dismissed for failure to state a claim. They contend that none of the six claims is
18 adequately pled, and claim that Mintel has attempted to bring them into this lawsuit by
19 simply asserting the “bald legal conclusion” that they conspired with Kaidi and Yalin Lin to
20 engage in the wrongs alleged in the complaint. They contend that none of the causes of
21 action pleads facts sufficient to put them on notice of the claims asserted against them.

22 In opposition, Mintel argues that the centerpiece of the present action is the
23 allegation that Yan Liu and Jun Zhang conspired with Kaidi, Yalin Lin, and third party
24 James Liu. Mintel contends that the FAC properly alleges a claim of civil conspiracy
25 against Yan Liu and Jun Zhang, and also pleads sufficient facts to state a claim of breach
26 of contract, misappropriation of trade secrets, false advertising, copyright infringement, and
27 unfair competition. Thus, Mintel asserts, the FAC adequately alleges all claims against Yan
28 Liu and Jun Zhang, by means of the civil conspiracy claim.

1 1. Civil conspiracy

2 In the sixth cause of action for civil conspiracy, Mintel asserts that defendants
3 conspired with James Liu to misappropriate Mintel's software and other trade secrets, to
4 copy Mintel's copyrighted software, to commit fraud against Mintel, and to engage in false
5 advertising and unfair competition. Mintel alleges that James Liu and the defendants
6 formed an agreement that sets forth a common plan to use Mintel's trade secrets,
7 copyrighted materials, and trademarks to compete with Mintel, to commit fraud against
8 Mintel, to falsely advertise Kaidi as Mintel's distributor, and to engage in unfair competition.
9 Mintel asserts that defendants engaged in overt acts to further the goals the agreement,
10 including selling Mintel products without authorization, entering a secret amendment to the
11 Collaboration Agreement, and coordinating in the publication of defamatory e-mails to
12 Mintel's shareholders.

13 Yan Liu and Jun Zhang argue that the civil conspiracy claim should be dismissed
14 because the FAC alleges nothing more than a "bald conclusion of law from its alleged
15 scenario without facts." Although the argument is not entirely clear, Yan Liu and Jun Zhang
16 seem to be arguing that the civil conspiracy claim does not state a claim because it does
17 not plead sufficient facts, and because agents or employees of a corporation (as Yan Liu
18 and Jun Zhang are alleged to be) cannot be co-conspirators with the corporation.

19 In opposition, Mintel contends that the FAC pleads sufficient facts to support the
20 conspiracy claims. Mintel asserts that the FAC alleges that Yan Liu and Jun Zhang were
21 involved in Kaidi's business affairs in a substantial way when James Liu was CEO of Mintel;
22 that Yan Liu and Jun Zhang initiated the collaboration between Kaidi and Mintel, and
23 participated in the negotiation between Kaidi and Mintel; that an agreement was formed
24 among James Liu and the defendants, "which set forth a common plan to use Mintel's trade
25 secrets, copyrighted materials, and trademarks to compete with Mintel, to commit fraud
26 against Mintel, to falsely advertise Kaidi as Mintel's distributor, and to commit unfair
27 competition against Mintel."

28 Mintel also asserts that the FAC adequately pleads the various acts committed by

1 defendants in furtherance of the conspiracy – that James Liu secretly amended the
 2 Collaboration Agreement in favor of Kaidi and in detriment to Mintel; that he authorized
 3 Kaidi to obtain the trademark “Mintel Memory Easy” in Kaidi’s name; that Kaidi falsely
 4 claimed it was Mintel’s exclusive distributor in China; that defendants, including Yan Liu and
 5 Jun Zhang sold Mintel’s products without authorization and entered into a secret agreement
 6 to amend the Distribution Agreement. Mintel contends that “[a]ll these wrongdoings were
 7 conducted through the conspiracy,” and that the FAC therefore adequately states claims
 8 against Yan Liu and Jun Zhang for their participation in the conspiracy to misappropriate
 9 Mintel’s trade secrets, engage in false advertising, infringe Mintel’s copyrights, and engage
 10 in unfair competition.

11 In reply, Yan Liu and Jun Zhang assert that Mintel’s pleading of civil conspiracy is
 12 deficient because the FAC fails to allege either fraud or the elements of civil conspiracy
 13 with particularity. They assert that “since conspiracy is the only claim against Yan Liu and
 14 Jun Zhang, they should be dismissed from the case.”

15 The court finds that the motion must be GRANTED, though not for the reasons
 16 argued by Yan Liu and Jun Zhang. Civil conspiracy is not a separate and distinct cause of
 17 action under California law. Entm’t Research Group, Inc. v. Genesis Creative Group, Inc.,
 18 122 F.3d 1211, 1228 (9th Cir. 1997). Instead, it is “a legal doctrine that imposes liability on
 19 persons who, although not actually committing a tort themselves, share with the immediate
 20 tortfeasors a common plan or design in its preparation.” Applied Equip. Corp. v. Litton
 21 Saudi Arabia Ltd., 7 Cal. 4th 503, 510-11 (1994). Thus, the sixth cause of action must be
 22 dismissed, and the civil conspiracy allegations must be separately pled as to each of the
 23 substantive causes of action. See Accuimage Diagnostics Corp. v. Terarecon, Inc., 260
 24 F.Supp. 2d 941, 947-48 (N.D. Cal. 2003).

25 The elements of a civil conspiracy are (1) the formation and operation of a
 26 conspiracy, (2) wrongful conduct in furtherance of the conspiracy, and (3) damages arising
 27 from the wrongful conduct. Applied Equip., 7 Cal. 4th at 511; see also Doctors’ Co. v.
 28 Superior Court, 49 Cal. 3d 39, 44 (1989). Each member of the alleged conspiracy must be

1 legally capable of committing the underlying tort – that is, each member must owe a duty to
2 the plaintiff that is recognized by law and must be potentially subject to liability for breach of
3 that duty – and must intend the success of the purpose of the conspiracy. Applied Equip.,
4 7 Cal. 4th at 511. In addition, all elements of the underlying tort must be satisfied. See id.
5 If the plaintiff fails to adequately plead the underlying claim, the corresponding conspiracy
6 claim must also fail. Id.

7 With regard to the pleading standard, it is true that courts have applied a heightened
8 pleading standard to claims of civil conspiracy – but generally only with respect to claims of
9 civil conspiracy to commit fraud. See, e.g., Wasco Prods., Inc., v. Southwall Techs., Inc.,
10 435 F.3d 989, 990-91 (9th Cir. 2006) (plaintiff must plead California civil conspiracy claim
11 with particularity where object of agreement is fraudulent). Here, however, it is not clear
12 whether Mintel intends to allege either a unified course of fraudulent conduct or some
13 overriding fraudulent objective.

14 The sixth cause of action for civil conspiracy alleges that “[d]efendants conspired
15 with [James] Liu to misappropriate Mintel’s software and other trade secrets, to copy
16 Mintel’s copyrighted software, to commit fraud against Mintel, to conduct false
17 advertisement, and to commit unfair competition.” FAC ¶ 55 (emphasis added). Thus,
18 while Mintel alleges no separate cause of action for fraud, it is possible that at least some
19 of the claims may sound in fraud. In amending the complaint, Mintel must clarify which
20 claims, if any, allege fraudulent conduct. Moreover, to the extent that Mintel does allege
21 fraudulent conduct, the civil conspiracy allegations must be amended to include
22 particularized facts.

23 2. Breach of contract

24 In the first cause of action for breach of contract, Mintel alleges that Kaidi breached
25 the Collaboration Agreement by failing to meet sales targets and by failing to make
26 payment to Mintel according to the terms of the agreement. Mintel asserts that Yan Liu,
27 Jun Zhang, and Yalin Lin conspired with Kaidi to breach the Collaboration Agreement.

28 Yan Liu and Jun Zhang argue that they cannot be liable for breach of the

1 Collaboration Agreement because neither of them was a party to the contract, or a
2 guarantor of the contract. They assert further that they cannot be liable for breach of
3 contract under a civil conspiracy theory, because under California law civil co-conspirator
4 liability extends only to torts committed by co-conspirators, not to contractual wrongs.

5 In opposition, Intel argues that the act of breaching a contract can give rise to a
6 claim for breach of the implied covenant of good faith and fair dealing, which may be
7 actionable in either tort or contract. Intel asserts that the FAC adequately alleges a claim
8 of conspiracy to breach the implied covenant of good faith and fair dealing, and argues that
9 the general proposition that California does not allow a finding of conspiracy to breach a
10 contract is “oversimplified,” as every claim of breach of contract potentially includes both a
11 tort claim and a contract claim.

12 Intel asserts that it is sufficient to allege, as here, that the Collaboration Agreement
13 was a valid and binding contract between Intel and Kaidi, and that Yalin Lin, Yan Liu, and
14 Jun Zhang conspired with Kaidi to breach that agreement. Intel also asserts that the
15 allegation that James Liu secretly amended the Collaboration Agreement in favor of Kaidi
16 and in detriment to Intel, if proven true, will establish the bad faith of Kaidi in breaching
17 the implied covenant. Thus, Intel argues, the FAC adequately pleads the elements of a
18 conspiracy to commit the “tortified breach of contract.”

19 In reply, Yan Liu and Jun Zhang address only the claim of civil conspiracy, and do
20 not specifically respond to Intel’s arguments regarding the breach of contract claim.

21 The court finds that the motion must be GRANTED as to the breach of contract
22 claim. It is undisputed that under California law, civil co-conspirator liability extends only to
23 torts committed by co-conspirators, not to contractual wrongs. Applied Equip., 7 Cal. 4th at
24 513-18. Thus, Yan Liu and Yalin Lin cannot be liable for conspiracy to breach the
25 Collaboration Agreement.

26 Intel argues, however, that the FAC actually alleges a claim for breach of the
27 implied covenant of good faith and fair dealing, a tort, and that the FAC states a claim
28 against Yan Liu and Jun Zhang for conspiracy to breach the implied covenant. Under

California law, every contract contains an implied covenant of good faith and fair dealing. Cates Constr., Inc. v. Talbot Partners, 21 Cal. 4th 28, 43 (1999) (citing Foley v. Interactive Data Corp., 47 Cal. 3d 654, 683 (1988)). This implied covenant requires that neither party do anything that will deprive the other party of the benefits of the agreement. Id.; Walker v. Truck Ins. Exchange, Inc., 11 Cal. 4th 1, 36 (1995).

Nevertheless, the implied covenant of good faith and fair dealing does not extend beyond the terms of the contract at issue. Poway Royal Mobilehome Owners Ass'n v. City of Poway, 149 Cal. App. 4th 1460, 1477 (2007). Since Yan Liu and Jun Zhang were not parties to the Collaboration Agreement, they did not have an independent duty not to violate covenant of good faith and fair dealing. Further, because they were not legally capable of breaching the implied covenant, they may not be held liable as a matter of law for conspiracy to commit the underlying tort.

Intel argues that if the court dismisses this cause of action, it should be permitted leave to amend. When a cause of action is dismissed for failure to state a claim, leave to amend should be freely granted, unless the court determines that "the pleading could not possibly be cured by the allegation of other facts." Doe v. United States, 58 F.3d 494, 497 (9th Cir. 1995) (quotation and citation omitted). Here, the court finds that no amendment can cure the deficiencies of the cause of action for breach of contract asserted against Yan Liu and Jun Zhang. Accordingly, the dismissal is without leave to amend.

3. Misappropriation of trade secrets

In the second cause of action for misappropriation of trade secrets, Intel asserts that Kaidi used its distributorship and its secret relationship with James Liu to obtain Intel's confidential information, including Intel's customer lists and software design, source code, database, and sound files. Intel alleges that Yalin Lin entered the Collaboration Agreement on behalf of Kaidi, conspired with James Liu to dilute Intel's profit share, and was directly involved in acquiring Intel's trade secrets and using that confidential information for her own benefit. Intel asserts that Yan Liu and Jun Zhang conspired with Lin and Kaidi to misappropriate Intel's trade secrets.

1 As with the first cause of action, Yan Liu and Jun Zhang contend that the claim of
2 misappropriation of trade secrets fails to state a claim against them because Mintel has
3 simply offered a “bald conclusion of law” – that Yan Liu and Jun Zhang “conspired with”
4 Kaidi.

5 In opposition, Mintel argues that it has adequately asserted a claim of
6 misappropriation of trade secrets, by alleging that it maintains its source code, database,
7 and sound files as confidential information; that it has exercised reasonable diligence to
8 preserve the confidentiality of that information, including using firewalls and requiring users
9 to supply log-ins and passwords, and limiting employee access to the information; that
10 Yalin Lin was directly involved in acquiring Mintel’s trade secrets, and using them for her
11 own benefit and in detriment to Mintel’s interest; and that Yan Liu and Jun Zhang formed an
12 agreement with James Liu to use Mintel’s trade secrets.

13 Mintel disputes the suggestion that Yan Liu and Jun Zhang cannot be liable for
14 misappropriation of trade secrets simply because they did not participate in the alleged
15 misappropriation, arguing that defendants have mischaracterized the standard for alleging
16 civil conspiracy. Mintel asserts that all the defendants can be found jointly and severally
17 liable for the misappropriation even though Yan Liu and Jun Zhang may not have
18 personally stolen Mintel’s trade secrets.

19 Yan Liu and Jun Zhang do not respond directly to these arguments in their reply to
20 the opposition.

21 The court finds that the motion must be GRANTED, with leave to amend. To state a
22 cause of action for misappropriation of trade secrets under California’s Uniform Trade
23 Secrets Act, a plaintiff must plead two primary elements – the existence of a trade secret,
24 and misappropriation of the trade secret. See Cal. Civ. Code § 3426.1(b); Accuimage, 260
25 F.Supp. 2d at 950. Here, Mintel has adequately stated a claim for misappropriation of trade
26 secrets, at least as to Kaidi, and also possibly as to Yalin Lin.

27 As indicated above, however, in the discussion of the civil conspiracy claim, Mintel
28 must plead civil conspiracy as to Yan Liu and Jun Zhang, with regard to the cause of action

1 for misappropriation of trade secrets. It is not sufficient – as here – that Mintel scatters the
2 allegations of formation of the conspiracy, wrongful conduct in furtherance of the
3 conspiracy, and damages arising from the wrongful conduct throughout the FAC, and then
4 simply alleges that Yan Liu and Jun Zhang “conspired with Lin and Kaidi, to misappropriate
5 Mintel's trade secrets.”

6 4. False advertising in violation of § 43 of the Lanham Act

7 In the third cause of action for false advertising, Mintel alleges that after the
8 Collaboration Agreement was terminated in 2004, Kaidi and Yalin Lin continued their
9 distribution using Mintel's trademark, and falsely represented that Kaidi was the exclusive
10 distributor of Mintel products, in violation of § 43 of the Lanham Act, 15 U.S.C. § 1125(a)
11 and California common law. Mintel asserts that Yan Liu and Jun Zhang conspired with Lin
12 and Kaidi to engage in false advertising.

13 Yan Liu and Jun Zhang argue that the FAC does not state a claim against them for
14 false advertising under the Lanham Act because Mintel fails to allege that either Yan Liu or
15 Jun Zhang was an “advertising doer” under the Lanham Act. Yan Liu and Jun Zhang also
16 argue that neither of them was a competitor of Mintel, and that fact that they are related to
17 Yalin Lin, Kaidi's CEO, does not make them competitors with Mintel. In addition, Yan Liu
18 and Jun Zhang contend that because a Lanham Act false advertising claim is a claim of
19 fraud, it is subject to a heightened pleading standard under Federal Rule of Civil Procedure
20 9(b). They assert that the claim for false advertising also fails to state a claim because it
21 does not identify the false and misleading statements they are alleged to have made, and
22 because it simply alleges that they “conspired with” Kaidi.

23 In opposition, Mintel asserts that Kaidi is a competitor of Mintel, and claim that it is
24 irrelevant that Yan Liu and Jun Zhang are not themselves competitors. Mintel contends
25 that the alleged conspiracy is sufficient to impose liability on Yan Liu and Jun Zhang for
26 false advertising, just as on Kaidi. Mintel also disputes the argument that a Lanham Act
27 false advertising claim must be pled with particularity under Rule 9(b). Mintel asserts that
28 there is no heightened pleading requirement for a false advertising claim. Mintel does not

1 address the claim that the false advertising claim is inadequately pled because it does not
2 identify the alleged false and misleading statements.

3 In their response, Yan Liu and Jun Zhang do not respond to Mintel's argument that
4 the conspiracy allegation obviates the need to allege that they were competitors of Mintel.
5 They do argue, however, that civil conspiracy mandates a heightened pleading when the
6 object of the conspiracy is fraudulent, although they do not specify whether they are
7 referring in this argument to the false advertising claim or to some other claim.

8 The court finds that the motion must be GRANTED, with leave to amend. Section
9 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), prohibits the use of false designations of
10 origin, false descriptions, and false representations in the advertizing and sale of goods and
11 services. Jack Russell Terrier Network of Northern Cal. v. American Kennel Club, Inc., 407
12 F.3d 1027, 1036 (9th Cir. 2005).

13 To state a claim for false advertising under the Lanham Act, a plaintiff must allege
14 1) that the defendant made a false statement of fact in a commercial advertisement or
15 promotion about its own or another's product; 2) that the statement actually deceived or
16 has the tendency to deceive a substantial segment of its audience; 3) that the deception is
17 material, in that it is likely to influence the purchasing decision; 4) that the defendant
18 caused its false statement to enter interstate commerce; and 5) that the plaintiff has been
19 or is likely to be injured as the result of the foregoing either by direct diversion of sales from
20 itself to defendant, or by lessening of the good will which its products enjoy with the buying
21 public. 15 U.S.C. § 1125(a); see Cook, Perkiss and Leihe, Inc. v. Northern California
22 Collection Service, Inc., 911 F.2d 242, 244 (9th Cir. 1990).

23 Here, the FAC alleges that Kaidi and Yalin Lin made representations, via Kaidi's
24 website, that Kaidi is the exclusive distributor of Mintel products, and that Kaidi and Yalin
25 Lin continued distributing Kaidi's products using Mintel's trademark. The FAC also alleges
26 that any member of the public in California or the United States can access the website,
27 and can purchase Kaidi's products by calling the telephone number posted on the website.
28 The FAC asserts that the misrepresentations deceive the public because they create a

1 false impression that Kaidi is selling Mintel's products and offering technical support with
2 Mintel's permission, when in fact Mintel long since terminated its relationship with Kaidi.
3 Finally, the FAC alleges that Yan Liu and Jun Zhang conspired with Yalin Lin and Kaidi to
4 publish the false advertisements.

5 The court finds that these allegations adequately state a claim of false advertising in
6 violation of § 43 of the Lanham Act, at least as to Kaidi, and possibly as to Yalin Lin.

7 As indicated above, however, Mintel must plead civil conspiracy as to Yan Liu and
8 Jun Zhang, with regard to the cause of action for false advertising. It is not sufficient – as
9 here – that Mintel scatters the allegations of formation of the conspiracy, wrongful conduct
10 in furtherance of the conspiracy, and damages arising from the wrongful conduct
11 throughout the FAC, and then simply alleges that Yan Liu and Jun Zhang “conspired with
12 Lin and Kaidi, to commit the false advertisement.”

13 Finally, Yan Liu and Jun Zhang provide no persuasive authority for their claim that
14 this cause of action is subject to a heightened pleading standard. To the extent that Yan
15 Liu and Jun Zhang argue that they have had no involvement with the distribution of or
16 advertising for Kaidi's products, such a dispute is not appropriate for resolution on a Rule
17 12(b)(6) motion.

18 5. Copyright infringement

19 In the fourth cause of action for copyright infringement, Mintel alleges that it owns
20 the copyright for the Mintel source code, and has obtained or has applied for copyright
21 registration certificates for the source code. Mintel asserts that by causing, accomplishing,
22 participating in, and enabling the actual or imminent unauthorized copying and electronic
23 distribution of unauthorized copies of Mintel's source code in the United States, defendants
24 have engaged in, and continue to engage in, copyright infringement in violation of §§ 106
25 and 501 of the Copyright Act, 17 U.S.C. §§ 106 and 501.

26 Yan Liu and Jun Zhang argue that the fourth cause of action does not state a claim
27 for copyright infringement, because it does not specifically allege any conduct of “copying.”
28 They also assert that the FAC is deficient because it fails to explain the “scope and nature”

1 of the authorization under the alleged “valid and binding agreement” (referring to the
2 Collaboration Agreement). They contend that it would be “unfair for Ms. Liu and Mr. Zhang
3 that [p]laintiff grab them under this [c]ourt’s jurisdiction in this copyright infringement lawsuit
4 by declaring a ‘valid and binding agreement’ . . . and at the same time hiding the scope of
5 the alleged distribution agreement between the two companies.” They contend that
6 because the scope of the Collaboration Agreement is at issue in this lawsuit, Intel cannot
7 adequately state a claim for copyright infringement unless it discloses the scope and nature
8 of the authorization under that agreement.

9 In opposition, Intel argues that it is not obligated to allege that Yan Liu and Jun
10 Zhang themselves actually did the copying of the copyrighted material, so long as there is a
11 specific allegation that they were part of a conspiracy to copy Intel’s software, and that
12 the software was in fact copied. Intel asserts that the FAC adequately alleges that Kaidi
13 and Yalin Lin engaged in the unauthorized copying and distribution of Intel’s source codes
14 and derivatives, and that Yan Liu and Jun Zhang conspired with Kaidi and Yalin Lin in this
15 endeavor. Intel disputes the suggestion that the “scope and nature” of the Collaboration
16 Agreement is relevant to determining whether this cause of action states a claim against
17 Yan Liu and Jun Zhang.

18 Yan Liu and Jun Zhang do not specifically respond to these arguments in their reply
19 to Intel’s opposition.

20 The court finds that the motion must be GRANTED, with leave to amend. To state a
21 claim for copyright infringement, the claimant must allege ownership of a copyright and
22 copying of protected elements by the defendant. Three Boys Music Corp. v. Bolton, 212
23 F.3d 477, 481 (9th Cir. 2000). The FAC satisfies the pleading requirements, at least as to
24 Kaidi, and possibly as to Yalin Lin.

25 As indicated above, however, Intel must plead civil conspiracy as to Yan Liu and
26 Jun Zhang, with regard to the claim of copyright infringement. It is not sufficient – as here –
27 that Intel scatters the civil conspiracy allegations throughout the FAC. Moreover, the
28 copyright infringement claim does not even contain the conclusory assertion that Yan Liu

and Jun Zhang “conspired with Lin and Kaidi” to infringe Mintel’s copyrights.

6. Unfair competition

In the fifth cause of action for unfair competition, Mintel alleges that the illegal, unlawful, and/or fraudulent conduct (asserted in the first through fourth causes of action) by defendants constitutes unfair competition in violation of California Business & Professions Code § 17200.

Yan Liu and Jun Zhang argue that this claim against them should be dismissed because Mintel fails to state that either of them is or was in competition with Mintel, and because (as with the fourth cause of action) Mintel fails to disclose the scope and nature of the authorization under the Collaboration Agreement. They also assert that the FAC fails to adequately allege an “unfair” act or practice, as is required to state a claim for unfair competition under § 17200. In particular, they contend that they are not shareholders, employees, or beneficiaries of Kaidi, and argue that the FAC does not allege facts showing the “unfair” nature of the conduct, and does not allege that the harm caused by the conduct outweighs any benefits the conduct might have.

In opposition, Mintel contends that the FAC adequately alleges a § 17200 claim because it asserts “violat[i]ons of state laws on contract, trade secrets, and the federal law on false advertisement.” Mintel also argues that the scope and nature of the Collaboration Agreement is irrelevant in the context of the § 17200 claim; and that “under the unlawful and fraudulent prongs of the UCA, it is not required that Kaidi be a competitor of Mintel, so long as it has committed unlawful or fraudulent business practices.”

Yan Liu and Jun Zhang do not specifically respond to the arguments in Mintel’s opposition. They argue only that the § 17200 claim should be dismissed because Mintel asserts “illegal, unfair, and/or fraudulent conduct by [d]efendants,” but fails to plead either the § 17200 claim or the civil conspiracy allegations with particularity.

The court finds that the motion must be GRANTED, with leave to amend. California’s unfair competition law, Business & Professions Code §§ 17200, et seq., “does not proscribe specific practices.” Cel-Tech Commc’ns v. L.A. Cellular, 20 Cal. 4th 163, 180

(1999). Instead, it defines “unfair competition” to include any “unlawful, unfair or fraudulent business act or practice.” Bus. & Prof. Code § 17200. Because it is written in the disjunctive, “it establishes three varieties of unfair competition.” A practice may be prohibited as “unfair” or “deceptive” even if not “unlawful,” and vice versa. Cel-Tech, 20 Cal. 4th at 180.

While the elements of an unfair competition claim derive from state substantive law, the degree of specificity required is governed by the Rules of Civil Procedure. See Taylor v. U.S., 821 F.2d 1428, 1432 (9th Cir. 1987). Under Rule 8(a), a plaintiff is required to provide only a “short and plain statement of the claim showing that the pleader is entitled to relief.” The plaintiff is not required to set out in detail the facts upon which he bases his claim; the allegations are sufficient so long as they provide fair notice of what the plaintiff’s claim is and the grounds upon which it rests. Bell Atlantic, 127 S.Ct. at 1964.

Here, however, the FAC does not provide Yan Liu and Jun Zhang with fair notice of the § 17200 claim or the grounds upon which it rests. Intel simply alleges that “[t]he foregoing illegal, unfair, and/or fraudulent conduct . . . constitutes unfair competition.” Even by liberal federal pleading standards, such an allegation is completely inadequate. Intel must specify the conduct that is alleged to be illegal, must specify the conduct that is alleged to be unfair, and must allege the conduct that is alleged to be fraudulent, if any.

Moreover, claims that are “grounded in fraud” or that “sound in fraud” must satisfy the particularity requirement of Federal Rule of Civil Procedure Rule 9(b). Vess v. Ciba-Geigy Corp. USA, 317 F.3d 1097, 1103-04 (9th Cir. 2003). Rule 9(b) provides that “[i]n all averments of fraud or mistake, the circumstances constituting the fraud or mistake shall be stated with particularity.”

Thus, to the extent that Intel alleges that any defendant engaged in fraudulent conduct, the amended complaint must allege specific facts supporting the elements of a fraud claim – misrepresentation, knowledge of falsity, intent to induce reliance, justifiable reliance, and resulting damage, see Conrad v. Bank of America, 45 Cal. App. 4th 133, 156 (1996) – and must allege the precise time, place, and nature of the misleading statements,

misrepresentations, or specific acts of fraud. See Kaplan v. Rose, 49 F.3d 1363, 1370 (9th Cir. 1994); In re GlenFed, Inc. Sec. Litig., 42 F.3d 1541, 1547 (9th Cir. 1994).

Similarly, “if the object of [a] conspiracy is fraudulent,” a plaintiff must comply with Rule 9(b) and must also plead the basic elements of a civil conspiracy. Wasco Prods., Inc. v. Southwall Techs., Inc., 435 F.3d 989, 990-91 (9th Cir. 2006). Thus, to the extent that Intel alleges that Yan Liu and Jun Zhang engaged in a conspiracy to defraud, both the underlying cause of action – whether § 17200 or some other claim – and the civil conspiracy allegations must be pled with specificity.

B. Motion to Dismiss for Failure to Join an Indispensable Party

Yan Liu and Jun Zhang argue that the complaint should be dismissed pursuant to Federal Rule of Civil Procedure 12(b)(7). Under Rule 12(b)(7), a party may bring a motion to dismiss for “failure to join a party under Rule 19.” Fed. R. Civ. P. 12(b)(7). Rule 19 governs compulsory joinder of parties. A Rule 12(b)(7) motion will be granted only if the court determines that joinder of the party is not possible, and that the party is, in fact, “indispensable.” Shermoe v. U.S., 982 F.2d 1312, 1317 (9th Cir. 1992).

Yan Liu and Jun Zhang note that Intel alleges that Yalin Lin conspired with James Liu to dilute Intel’s share of the profits in the Collaboration Agreement – which was signed on behalf of Intel by James Liu, and on behalf of Kaidi by Yalin Lin – and that all defendants conspired with James Liu to misappropriate Intel’s software and other trade secrets, to copy Intel’s protected software, to commit fraud against Intel, and to engage in false advertising and unfair competition.

Yan Liu and Jun Zhang assert that “[b]y these allegations, [Intel] has successfully established that James Liu, the co-founder and former CEO and former major shareholder of [Intel], is a necessary and indispensable party for the [c]ourt to consider [Intel’s] conspiracy allegations.” In particular, they argue that the claim of civil conspiracy against them should be dismissed because James Liu – who, as Intel’s CEO, negotiated the Intel/Kaidi Collaboration Agreement on behalf of Intel – is not named as a defendant in this lawsuit. They argue that “[w]ithout James Liu, complete relief cannot be accorded to

1 the parties of this action.”

2 In opposition, Intel disputes the theory proposed by Yan Liu and Jun Zhang – that
3 a co-conspirator is an indispensable party under Rule 19. Intel asserts that it does not
4 need to join James Liu in order to obtain complete relief against Yan Liu and Jun Zhang.
5 Intel also claims that it has settled with James Liu for his liabilities related to the present
6 case, and is presently suing him for breach of the settlement agreement and other related
7 matters in Intel Learning Technology, Inc. v. U.S. Ivy Learning Networks, Inc., C-06-4994-
8 JW (N.D. Cal.).

9 In response, Yan Liu and Jun Zhang argue that James Liu is an indispensable party
10 because his alleged involvement is at the center of all Intel’s claims, and because “the
11 nature of his alleged role would expose [Yan Liu and Jun Zhang] to multiple or inconsistent
12 obligations as well as impair his ability to protect his interest in this suit.” They assert that
13 the contract to which “defendants” are parties (presumably referring to the Collaboration
14 Agreement, to which Intel and Kaidi were parties) is at issue in this litigation, and “the
15 resolution of [Intel’s] claims will therefore reasonably require the court to determine the
16 rights and obligations of [Intel] and [d]efendants under the alleged Collaboration
17 Agreement and its subsequent supplemental agreements.”

18 Yan Liu and Jun Zhang argue that the cases cited by Intel “do not address the
19 situation where [d]efendants were conspiring with [p]laintiff’s CEO in a breach of contract
20 claim.” They assert that James Liu signed the Collaboration Agreement on behalf of Kaidi,
21 and “is therefore the acting party to the underlying contract,” and that he is also “operating
22 a competing company and allegedly committing the same wrongs as [d]efendants.”

23 According to Yan Liu and Jun Zhang, “the issues at trial cannot be fully resolved” if
24 James Liu is not present in this action. They contend that “[h]is absence not only severely
25 prejudices [d]efendants’ case, but also exposes [d]efendants to risk of multiple or
26 inconsistent obligations because of [James] Liu’s interest.”

27 Yan Liu and Jun Zhang also argue that James Liu’s interest in the present action
28 “will be affected without his joinder.” As an example, they assert that if James Liu is not

joined, “he will not be given the opportunity to protect his rights” regarding any determination by the finder of fact as to which of Intel’s trade secrets were misappropriated. They claim in addition that “[t]he matter is of interest to him since he is also allegedly using the same misappropriated trade secrets in his own company.”

The court finds that the motion to dismiss for failure to join James Liu as an indispensable party must be DENIED. When considering whether to dismiss an action for failure to join a purportedly indispensable party, the court must follow the three-step process set forth in Rule 19.

First, the court must determine whether the absent party is “necessary.” . . . If the absent party is “necessary,” the court must determine whether joinder is “feasible.” Finally, if joinder is not “feasible,” the court must decide whether the absent party is “indispensable,” i.e., whether in “equity and good conscience” the action can continue without the party.

U.S. v. Bowen, 172 F.3d 682, 688 (9th Cir. 1999) (citing Fed. R. Civ. P. 19).

A motion to dismiss for failure to join an indispensable party requires the moving party to bear the burden in producing evidence in support of the motion. Biagro Western Sales Inc. v. Helena Chem. Co., 160 F.Supp. 2d 1136, 1141 (E.D. Cal. 2001). In this case, Yan Liu and Jun Zhang have made no showing that James Liu satisfies the requirements of Rule 19.

The first requirement is that he be a “necessary” party. Rule 19(a)(1) provides that a party is “necessary” in two circumstances – when complete relief is not possible without the absent party’s presence, or when the absent party claims a legally protected interest in the action. Yellowstone County v. Pease, 96 F.3d 1169, 1172 (9th Cir. 1996); see also Schnabel v. Lui, 302 F.3d 1023, 1029-30 (9th Cir. 2002).

Thus, in a Rule 19(a)(1) analysis, the court must consider two questions – whether the absence of the party would preclude the district court from fashioning meaningful relief as between the parties, and whether the absent party’s participation is necessary to protect its legally cognizable interests or to protect existing parties from a significant risk of incurring multiple or inconsistent obligations because of those interests. See Fed. R. Civ. P. 19(a)(2)(i) & (ii).

Yan Liu and Jun Zhang contend that complete relief is not possible in this action without James Liu's presence. However, "[i]t has long been the rule that it is not necessary for all joint tortfeasors to be named as defendants in a single lawsuit." Temple v. Synthes Corp. Ltd., 498 U.S. 5, 7 (1990). "The Advisory Committee Notes to Rule 19(a) explicitly state that 'a tortfeasor with the usual "joint-and-several" liability is merely a permissive party to an action against another with like liability." Id. Co-conspirators, like other joint tortfeasors, are not deemed indispensable parties. Lawlor v. Nat'l Screen Serv. Corp., 349 U.S. 322, 329-30 (1955). Because the liability of joint tortfeasors is both joint and several, a plaintiff can sue one without suing the others, and the court can afford a plaintiff complete relief in the absence of all the joint tortfeasors in the same lawsuit.

Yan Liu and Jun Zhang also assert that James Liu's participation is necessary to protect his legally cognizable interests and to protect defendants from the risk of incurring multiple or inconsistent obligations because of James Liu's interests. Joinder is "contingent . . . upon an initial requirement that the absent party claim a legally protected interest relating to the subject matter of the action." Bowen, 172 F.3d at 689 (quoting Northrup Corp. v. McDonnell Douglas Corp., 705 F.2d 1030, 1043 (9th Cir. 1983)). Here, Yan Liu and Jun Zhang simply hypothesize that James Liu's interests will be impaired if he is not joined in this action. They offer no evidence that James Liu himself has asserted a protected interest in the subject matter of the action.

Yan Liu and Jun Zhang contend that they will risk multiple and inconsistent obligations because of James Liu's interests in this action, on the theory that James Liu might file a lawsuit alleging that "defendants" misappropriated his trade secrets. The court finds this argument somewhat incomprehensible, as the present lawsuit involves Intel's claim of misappropriation of trade secrets, and any dispute regarding third-party James Liu's trade secrets would be irrelevant to the issues raised in this case.

CONCLUSION

In accordance with the foregoing, the court hereby rules as follows:

- 1) The motion to dismiss the first cause of action for breach of contract, as

1 alleged against Yan Liu and Jun Zhang, is GRANTED, without leave to amend.

2 2) The motion to dismiss the sixth cause of action for civil conspiracy is
3 GRANTED. Rather than pleading a separate cause of action for civil conspiracy, Mintel
4 must plead the elements of conspiracy as to each of the underlying claims –
5 misappropriation of trade secrets, false advertising in violation of the Lanham Act, copyright
6 infringement, and unfair competition. In addition, to the extent that Mintel asserts
7 conspiracy to defraud, both the elements of civil conspiracy and the elements of the
8 underlying claim must be pled with particularity.

9 3) The motion to dismiss the second cause of action for misappropriation of
10 trade secrets, the third cause of action for false advertising in violation of the Lanham Act,
11 and the fourth cause of action for copyright infringement, as alleged against Yan Liu and
12 Jun Zhang, is GRANTED, with leave to amend. Although all three state a claim of the
13 underlying violation, each must be amended to plead the elements of civil conspiracy as to
14 the underlying claim in order to state a claim against Yan Liu and Jun Zhang.

15 4) The motion to dismiss the fifth cause of action for unfair competition is
16 GRANTED, with leave to amend. As indicated above, Mintel must provide a more specific
17 statement with regard to whether the challenged conduct is alleged to be unfair, unlawful,
18 or fraudulent – and if fraudulent, must plead facts with particularity. In addition, the claim
19 must be amended to plead the elements of civil conspiracy.

20 5) The motion to dismiss the claims alleged against Yan Liu and Jun Zhang for
21 failure to join an indispensable party is DENIED.

22 6) The second amended complaint shall be filed no later than September 12,
23 2007.

24 **IT IS SO ORDERED.**

25 Dated: August 9, 2007



26 PHYLLIS J. HAMILTON
27 United States District Judge
28